

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
EPG-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 IGA-02 (ISO) W

-----112279 281511Z /21

R 210023Z JUN 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2980

INFO TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 MEXICO 10173

EO 11652: GDS

TAGS: EFIN, EGEN, BEXP, MX

SUBJECT: RECENT FINANCIAL DEVELOPMENTS

REF: MEXICO 9398

1. SUMMARY. THE APRIL ISSUE OF THE BANK OF MEXICO'S
ECONOMIC INDICATORS PERMITS SOME ANALYSIS OF INTERNAL
ECONOMIC DEVELOPMENTS IN THE FIRST QUARTER. END SUMMARY.

2. MONETARY DEVELOPMENTS: THE END-MARCH MONEY SUPPLY
WAS 31 PERCENT ABOVE THE YEAR-EARLIER FIGURE, COMPARED TO
32.8 PERCENT FOR FEBRUARY AND 31 PERCENT FOR JANUARY. THE
RATIO OF CURRENCY TO MONEY SUPPLY REMAINS HIGH, 49 PERCENT,
COMPARED TO 43 PERCENT IN THE TWO PREVIOUS YEARS; HOWEVER,
THIS RATIO IS DECLINING FROM THE HIGH OF 53 PERCENT
REACHED LAST NOVEMBER. THE SUBSTANTIAL CURRENCY ISSUE
MADE NECESSARY BY THE RUN ON THE BANKS HAS INDIRECTLY
HELPED THE BANK OF MEXICO MEET THE FUND AGREEMENT TARGETS
IN THAT THE CURRENCY ISSUE AS OF END-1976 WAS HIGHER THAN
IT WOULD OTHERWISE HAVE BEEN. THE BANK OF MEXICO'S
CURRENCY ISSUE AS OF END-MAY WAS 68.2 BILLION PESOS,
11.2 BILLION BELOW THE END-1976 FIGURE, AND 18.6 BILLION
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OR 37.5 PERCENT ABOVE THE YEAR-EARLIER FIGURE.

3. PESO-DENOMINATED DEPOSIT LIABILITIES OF NATIONAL AND
PRIVATE BANKS INCREASED 16 BILLION PESOS IN THE FIRST
O*ARTER, VIRTUALLY ALL OF THE INCREASE WAS IN THE FORM
OF TIME DEPOSITS. ON A YEAR-TO-YEAR BASIS, THE
COMPARABLE FIGURE IS 2.3 BILLION PESOS; EXCLUDING DEMAND

DEPOSITS, PESO-DENOMINATED DEPOSITS AT END MARCH 1977 WERE 10 BILLION PESOS BELOW THE YEAR-EARLIER FIGURE. DOLLAR-DENOMINATED DEPOSITS INCREASED \$241.3 MILLION OR THE EQUIVALENT OF 5.3 BILLION PESOS IN THE FIRST QUARTER CONVERTED AT THE AVERAGE EXCHANGE RATE FOR THIS PERIOD. LIABILITIES TO FOREIGN BANKS INCREASED \$175.2 MILLION IN THE FIRST QUARTER. FOR THE 12-MONTH PERIOD, DOLLAR

DEPOSIT LIABILITIES WERE UP \$1,691.6 MILLION AND LIABILITIES TO FOREIGN BANKS WERE UP \$2,640.9 MILLION. THE SHIFT FROM PESOS TO FOREIGN EXCHANGE HAS SLOWED, BUT IT HAS NOT REVERSED.

4. BANK OF MEXICO DIRECTOR GENERAL ROMERO KOLBECK HAS STATED THAT THE INTEREST RATE REFORM HAS HAD A SIGNIFICANT IMPACT. HOWEVER, IN APRIL AND MAY PROCEEDS FROM MATURING TIME DEPOSITS WERE HELD IN MORE LIQUID FORMS SINCE HIGHER INTEREST RATES WERE WIDELY ANTICIPATED.

5. TOTAL CREDIT FLOWS IN THE FIRST QUARTER AMOUNTED TO 20.4 BILLION PESOS, OF WHICH 8.3 BILLION WENT TO NON-GOVERNMENT BORROWERS, BUT INCLUDING PARASTATAL ENTITIES. ADJUSTED FOR THE IMPACT OF DEVALUATION ON DOLLAR-DENOMINATED CREDIT, THE STOCK OF CREDIT TO NON-GOVERNMENT BORROWERS WAS 16 PERCENT ABOVE YEAR-EARLIER FIGURES WHICH WOULD BE A DECLINE IN REAL TERMS.
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6. THE STOCK OF BANKING SYSTEM (EX-BANK OF MEXICO) CREDIT TO THE FEDERAL GOVERNMENT INCREASED 19.5 BILLION PESOS IN THE FIRST QUARTER. ADJUSTED FOR THE INCREASE IN THE STOCK OF DOLLAR-DENOMINATED DEBT IN TERMS OF PESOS RESULTING FROM THE DEPRECIATION OF THE PESO, THE CREDIT FLOWS FROM PRIVATE AND NATIONAL BANKS TO THE FEDERAL GOVERNMENT WERE 12.2 BILLION PESOS. THIS FIGURE EXCLUDES RECEIPTS FROM FOREIGN BORROWING AND CHANGES IN BANK OF MEXICO CREDIT. IT ALSO EXCLUDES BORROWING BY THE REST OF THE PUBLIC SECTOR.

7. IT IS DIFFICULT TO RECONCILE THE ABOVE DATA ON BANK LENDING TO THE FEDERAL GOVERNMENT WITH THE DATA ON CASH OUTLAYS AND RECEIPTS FOR THE FIRST TWO MONTHS WHICH SHOW A SURPLUS OF 0.4 BILLION PESOS. IT IS POSSIBLE THAT MARCH SHOWED A SIGNIFICANT DEFICIT AND/OR BANK OF MEXICO CREDIT TO FEDERAL GOVERNMENT DECLINED. FEDERAL GOVERNMENT EXTERNAL BORROWING WAS NEGLIGIBLE, WITH ONLY \$2.8 MILLION SHOWING UP IN THE BALANCE OF PAYMENTS ACCOUNTS. A PRIVATE BANK THAT IS USUALLY WELL-INFORMED, REPORTS THAT THE FEDERAL GOVERNMENT DEFICIT IN THE FIRST QUARTER WAS ABOUT

6 BILLION PESOS.

8. FEDERAL GOVERNMENT SPENDING IN THE FIRST TWO MONTHS WAS ABOUT 25 PERCENT ABOVE THE YEAR-EARLIER FIGURE. HOWEVER, CURRENT EXPENDITURES WERE 47 PERCENT ABOVE THE YEAR-EARLIER FIGURES AND CAPITAL EXPENDITURES WERE 60 PERCENT ABOVE THE YEAR-EARLIER FIGURE. A REDUCTION IN PAYMENTS OF ADEFAS (OBLIGATIONS INCURRED IN PREVIOUS

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INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
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FISCAL YEARS) ACCOUNTS FOR THE RELATIVELY SLOW GROWTH IN TOTAL EXPENDITURES. ADEFAS IN 1977 WILL PRESUMABLY BE GREATER THAN IN 1976. ALTHOUGH IT MAY BE TOO EARLY TO EXTRAPOLATE, THESE FIGURES COULD INDICATE A HIGHER LEVEL OF SPENDING THAN IS CONTEMPLATED IN THE BUDGET, WHICH CALLS FOR A 35 PERCENT INCREASE IN FEDERAL GOVERNMENT OUTLAYS. IN THIS REGARD FINANCE SECRETARY MOCTEZUMA TOLD A GROUP FROM THE U.K. THAT THE TOTAL PUBLIC SECTOR DEFICIT WOULD NOT EXCEED 125 BILLION PESOS THIS YEAR. WHILE THIS NEED NOT CONTRADICT THE FUND PROGRAM, IT IS INTERESTING THAT HE WOULD NOT GO ON THE RECORD AS PREDICTING A DEFICIT CLOSER TO THAT CALLED FOR IN THE FUND AGREEMENT.

9. INDUSTRIAL PRODUCTION: WHILE THE INDUSTRIAL PRODUCTION INDEX SLIPPED 0.3 PERCENT FROM JANUARY TO FEBRUARY, THE SUBINDEX FOR MANUFACTURERS WAS UP 1.4 PERCENT. THERE IS SOME REASON TO BELIEVE THAT THE DECLINE IN INDUSTRIAL OUTPUT WHICH BEGAN LAST JUNE HAS NOW STOPPED. THE OVERALL INDEX DECLINED BECAUSE OF DECLINES IN FOUR OF THE OTHER FIVE SUBINDICES. ONLY MINING OUTPUT INCREASED.

PETROLEUM OUTPUT IN FEBRUARY WAS AT THE YEAR-EARLIER FIGURE. THE PETROCHEMICAL INDEX DROPPED 20.3 PERCENT FROM JANUARY TO FEBRUARY. THIS IS IN PART SEASONAL; THE CONFIDENTIAL

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BALANCE MAY REFLECT THE DROP IN PETROLEUM OUTPUT. THE ELECTRICITY SUBINDEX DROPPED 6.7 PERCENT FROM JANUARY TO FEBRUARY WHEN IT WAS 5.2 PERCENT ABOVE THE YEAR-EARLIER FIGURE. THE FEBRUARY INDUSTRIAL PRODUCTION INDEX WAS 4.7 PERCENT BELOW THE YEAR-EARLIER FIGURE AND THE MANUFACTURES' SUBINDEX WAS 3.3 PERCENT BELOW THE YEAR-EARLIER FIGURE.

10. THERE ARE 16 INDUSTRY SUBINDICES IN THE MANUFACTURERS' SUBINDEX. TENDING TO CONFIRM THE VIEW THAT THE BOTTOM HAS BEEN REACHED, 13 OF THE 15 INDICES FOR WHICH THERE IS MARCH DATA SHOWED MONTHLY INCREASES. ON A YEAR-TO-YEAR BASIS, 8 OF THE 15 SHOWED INCREASES.

11. MEXICO'S INDUSTRIAL OUTPUT IN THE FIRST QUARTER 1977 IS LIKELY TO BE ABOUT SIX PERCENT BELOW THE YEAR-EARLIER FIGURE. WHILE IT IS HOPED THAT THE BOTTOM HAS BEEN REACHED, NOBODY IS ANTICIPATING A QUICK OR STRONG RECOVERY. THE POSSIBILITY OF A SLIGHT YEAR-TO-YEAR DECLINE IN INDUSTRIAL OUTPUT SHOULD NOT BE RULED OUT. IF THIS OCCURS, IT IS UNLIKELY THAT GROWTH IN THE OTHER ROUGHLY TWO-THIRDS OF THE ECONOMY WILL BE MUCH GREATER THAN ZERO. THE LIKELIHOOD OF A ZERO GROWTH RATE FOR THE YEAR AS A WHOLE LOOMS LARGER AND LARGER. THOMPSON

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Message Attributes

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